County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

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To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE ON HOUSE BUDGET RECONCILIATION LEGISLATION

On May 7, 2012, the House Budget Committee is scheduled to mark up budget reconciliation legislation to repeal and replace the automatic across-the-board sequestration spending cuts that otherwise would be required pursuant to the Budget Control Act (BCA) of 2011, which was enacted to increase the Federal debt limit. The legislation would package budget reconciliation measures, which were approved by six House Committees during the past two weeks to reduce mandatory spending by more than $260 billion over ten years, as instructed in the House-passed budget resolution.

Under the BCA, $109.3 billion in Federal Fiscal Year (FFY) 2013 sequestration cuts, divided evenly between defense and non-defense programs, will be implemented in January 2013. House Republicans are most concerned about the impact of these cuts on defense and national security. Non-defense discretionary programs would be subject to a roughly 8 percent across-the-board cut in FFY 2013. However, the County's overall Federal revenue would be reduced by a far smaller percentage because low-income mandatory (entitlement) programs, such as Medicaid, Temporary Assistance for Needy Families (TANF), and Title IV-E Foster Care and Adoption Assistance, and the Supplemental Nutrition Assistance Program (SNAP), which account for most of the County's Federal revenue, are exempt from sequestration cuts.

The Senate will not act on any budget reconciliation bill because it will not pass any budget resolution this year. While the House budget reconciliation bill will not be enacted this year, it is instructive for revealing the kinds of mandatory spending cuts that House Republicans are likely to pursue as spending offsets in budget-related legislation. For example, two days after the House Energy and Commerce Committee approved a budget reconciliation bill which repeals the Prevention and Public Health Fund (PPHF), the House passed H.R. 4628, which repeals the PPHF to pay for a one-year extension of the current subsidized student loan interest rate, which, otherwise, will expire on June 30, 2012. Under current law, annual PPHF appropriations will be $1 billion a year through FFY 2017, gradually increasing to $2 billion a year by FFY 2022.

In addition to the repeal of the PPHF, other mandatory spending cuts of County interest which have been approved by House committees that are consolidated in the draft budget reconciliation bill, which the House Budget Committee will mark up and is expected to approve, include:

Medicaid Disproportionate Hospital Share (DSH) Reduction: The ACA's reduction in DSH allotments would be extended for an additional year through FFY 2022, which would reduce Federal spending by an estimated $4.2 billion. Medicaid DSH allotments, otherwise, will revert back to pre-ACA levels, beginning in FFY 2022. H.R. 3630, the Middle Class Tax Relief and Job Creation Act which was signed into law on February 22, 2012, extended the ACA's Medicaid DSH reduction, which originally was scheduled to expire in FFY 2020, through FFY 2021. The President also has supported the "re-basing" of Medicaid DSH allotments.

Medicaid Provider Taxes: Under current law, states may not tax health providers and return tax revenues to providers through higher Medicaid payments unless provider tax revenues are less than 6 percent of providers' total revenues. This 6 percent tax threshold would be reduced to 5.5 percent beginning in FFY 2013, which would reduce Federal spending by an estimated $11.3 billion through FFY 2022. A reduction in the amount of Federal matching funds generated by provider taxes, in effect, shifts costs to states and could directly or indirectly result in cuts in Medicaid payments to providers. The President's Proposed FFY 2013 Budget calls for an even deeper reduction in the provider tax threshold to 4.5 percent in FFY 2015, 4 percent in FFY 2016, and 3.5 percent in subsequent years.

Medicaid and Children's Health Insurance Program (CHIP) Maintenance of Effort (MOE) Requirements: The ACA's MOE requirements, which prohibit states from reducing Medicaid eligibility for adults before 2014 and for Medicaid and CHIP eligibility for children before 2019 would be repealed. The Congressional Budget Office (CBO) estimates that repealing the MOE requirements would reduce Federal spending by only $1.4 billion through FFY 2022. Eliminating for MOE eligibility requirement for adults would have relatively little effect because it expires in 2014 under current law. The CBO assumes that part of the potential savings from reducing Medicaid and CHIP eligibility would be offset by higher Federal costs for children who, instead, would receive subsidized coverage through the ACA's health exchanges.

State Exchange Grants: Grants authorized by the ACA to assist states in setting up health exchanges would be repealed. The CBO estimates that this repeal would reduce Federal spending on such grants by $1.4 billion over ten years, and reduce Federal exchange subsidies by $14.1 billion over ten years because its repeal would delay the establishment of exchanges and, therefore, also delay exchange subsidies to eligible individuals. The CBO also assumes that $1.3 billion in grants will have been awarded to states, such as California, before the legislation is enacted.

Recapture of Health Exchange Subsidies: Under the ACA, Federal-funded exchange subsidies for the purchase of health insurance would be calculated and provided to individuals in advance based on prior year income in order to avoid delaying their receipt of the subsidies and to encourage them to seek health insurance. If a subsidy recipient's actual income increases, they are responsible for repaying part or all or their excess subsidy, subject to limits based on income. The reconciliation legislation would amend current law to make individuals liable for the full amount of overpayments. The Joint Committee on Taxation estimates that this change would reduce Federal spending on exchange subsidies by nearly $32 billion over ten years.

Supplemental Nutrition Assistance Program (SNAP): Federal spending on SNAP (formerly known as Food Stamps) would be reduced by a total of $35.8 billion over ten years, as estimated by the CBO. One provision would restrict categorical eligibility for SNAP. Under current law, all family members who receive cash assistance through TANF, Supplemental Security Income, or general assistance automatically receive SNAP benefits and are not subject to its program income and asset requirements. States also have the option to extend "broad-based" categorical eligibility to households that receive non-cash services through TANF. The legislation would restrict categorical eligibility to only households that receive cash assistance. According to the CBO, an estimated 1.8 million persons per year would lose SNAP benefits, reducing Federal SNAP spending by $11.5 billion over ten years. Restricting categorical eligibility also indirectly would increase state and local SNAP administrative costs, including in California where counties help finance the non-Federal share of SNAP ("CalFresh") administrative costs.

The single largest SNAP reduction is an estimated $14 billion in Federal savings from repealing the automatic eligibility of Low Income Home Energy Assistance Program (LIHEAP) recipients for SNAP benefits. This change would have relatively little impact on SNAP recipients in Los Angeles County because most LIHEAP funds go to individuals in cold weather states. The measure also reduces SNAP expenditures by eliminating a temporary increase in SNAP benefits that was enacted under the American Recovery and Reinvestment Act (ARRA) of 2009, which is due to sunset on October 31, 2013 under current law. The CBO estimates that Federal SNAP benefits would be reduced by $6 billion if the temporary benefit increase were ended on July 1, 2012. The bill also would reduce Federal spending by an estimated $3.1 billion over ten years by eliminating the availability of Federal matching funds for SNAP employment and training activities in excess of the annual base Federal employment and training allocation that is provided to states.

Title XX Social Services Block Grant: The $1.7 billion a year Title XX Social Services Block Grant (SSBG), which states use to fund a wide range of social services, would be eliminated. California receives roughly $204 million a year through its population-based formula. The elimination of SSBG would increase the State's budget shortfall by a like amount each year because the State uses its SSBG allotment to help fund the State share of social services that otherwise would be financed from the State General Fund.

National Flood Insurance Program: The reconciliation legislation includes language from H.R. 1309, a bill which would reauthorize the National Flood Insurance Program (NFIP) through FFY 2016 that the House passed 406 to 22, on July 12, 2011. Under current law, the NFIP will expire on May 31, 2012. It has been temporarily extended numerous times since September 2008 when it originally was due to expire. The bill would increase flood insurance premiums and increase the current annual limit on premium increases from 10 percent to 20 percent. The CBO estimates that the premium increases would raise an additional $4.9 billion in program income over ten years, all of which would be used to cover future program shortfalls. However, the House-passed budget resolution requires the $4.9 billion in to be counted as savings. The House NFIP bill language varies significantly from the Senate version (S. 1940), which is pending Senate floor action.

We will continue to keep you advised.

WTF:RA
MR:MT:sb

c: All Department Heads
Legislative Strategist